



STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

**UTAH BUSINESS INSURANCE COMPANY, INC.**

of

South Jordan, Utah

as of

December 31, 2019



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December 7, 2020

Honorable Tanji J. Northrup,  
Interim Insurance Commissioner  
Utah Insurance Department  
3110 State Office Building  
Salt Lake City, Utah 84114

Commissioner:

Pursuant to your instructions and in compliance with Utah Code § 31A-2-204, an examination, as of December 31, 2019, has been made of the financial condition and business affairs of:

UTAH BUSINESS INSURANCE COMPANY, INC.  
South Jordan, Utah

hereinafter referred to in this report as “the Company”, and the following report of examination is respectfully submitted.

## **SCOPE OF EXAMINATION**

### **Period Covered by Examination**

Representatives of the Utah Insurance Department (Department) have performed a full scope, multi-state examination of the Company. This examination covers the period of January 1, 2017, through December 31, 2019, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

### **Examination Procedures Employed**

We conducted our examination in accordance with the *National Association of Insurance Commissioners Financial Condition Examiners Handbook* (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination, however, does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Financial Statements section of this report.

This examination report includes significant findings of fact, as mentioned in Utah Code § 31A-2-204 and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other insurance regulators and/or the Company.

### **SUMMARY OF SIGNIFICANT FINDINGS AND RECOMMENDATIONS**

The following items are significant findings and recommendations for inclusion in this report:

1. As of the date of this report, the Company has not submitted a Form D – Prior Notice of Transaction to the Department as required by Utah Code § 31A-16-106(1)(b)(iv) for the following:

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  - a. The Addendum to the Third Party Administrative Contract (TPA Contract) between the Company and its affiliate, Universal Risk Services (URS), dated August 17, 2019;
  - b. The Employment Agreement between the Company and Ronald Nielsen, the Company's ultimate controlling person (UCP).

*Recommendation:*

*We recommend the Company file all required Form Ds with the Department to come into compliance with § 31A-16-106(1)(b)(iv). We further recommend that a Form D be filed with the Department for any subsequent new or amended agreements with affiliates.*

2. A related party, RJN Insurance Agency (RJN), was created by the UCP, Ronald Nielsen, during the examination period. However, the Company did not disclose this addition to the insurance holding company in accordance with § 31A-16-105(1)(a).

*Recommendation:*

*We recommend the Company properly disclose all related parties to the Department in accordance with § 31A-16-105.*

*Note:*

*The Company submitted a Form D for the RJN Insurance Agency to the Utah Insurance Department on November 3, 2020, and that is currently under the analyst's review.*

3. The TPA Contract between the Company and URS does not require timely settlement of amounts owed in accordance with Statement of Statutory Accounting Principles (SSAP) No. 25, which states that all related party agreements provide for timely settlement of amounts owed, with a specific due date, and any amounts owed over ninety days must be nonadmitted. If the agreement does not address the due date, any uncollected receivable is nonadmitted.

*Recommendation:*

*We recommend that the Company revise the TPA Contract to include a provision for the timely settlement of amounts owed to and from URS, with a specific due date not exceeding ninety days, in accordance with SSAP No. 25.*

4. The Company did not properly designate the bonds held as statutory deposits with an "SD" identifier on Schedule D – Part 1 in the 2019 Annual Statement in accordance with NAIC Annual Statement Instructions.

*Recommendation:*

*We recommend the Company include the proper code "SD" for the statutory deposit investments on its Annual Statement investment Schedule D Part 1, Column 3.*

## **COMPANY HISTORY**

### General

Utah Builders Insurance Company, Inc. (Utah Builders) was incorporated on February 10, 2006, became licensed as a property & casualty insurer under the insurance laws of the State of Utah as a workers' compensation insurance provider, and commenced business on April 1, 2006. Utah Builders received its Certificate of Authority dated March 16, 2006 from the State of Utah. Its main marketing focus was insuring construction companies.

Utah Builders received Certificates of Authority to write workers' compensation insurance in Nevada on October 3, 2012 and in Missouri on November 8, 2012. The principal office is located at 10421 S Jordan Gateway Ste. 400, South Jordan, UT 84095.

Utah Builders amended its Articles of Incorporation on January 31, 2008 to change its name to Utah Business Insurance Company, Inc. This change was consistent with the change in strategic plan to market and write business in other industries in addition to construction.

The Company is part of a holding company system and the UCP of that system is Ron Nielsen, who directly owns 64% of the holding company group. There are 44 shareholders total, none of whom owns more than 10% of the Company, other than Mr. Nielsen. The ownership of the holding company system has had no significant changes during the period under examination.

Since its inception, the Company has solely provided workers' compensation coverage both on a direct basis and as reinsurance assumed through its fronting partner.

#### Mergers and Acquisitions

No mergers and acquisitions took place during the examination period.

#### Dividends and Capital Contributions

No policyholder or stockholder dividends were declared or paid, and no capital contributions were received, during the examination period.

### **MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE**

#### Board of Directors

The bylaws of the Company state that the Board of Directors shall be no less than three (3) or more than eleven (11) directors. The following persons served as directors of the Company as of December 31, 2019:

<b>Name and Location</b>	<b>Principal Occupation</b>
Orrin T. Colby, Jr. <i>South Salt Lake City, UT</i>	CEO <i>WestLync Insurance Enterprises, Inc.</i>
Alan Johnson <i>Orem, UT</i>	Retired <i>IMS Masonry, Inc.</i>
Paul Magleby <i>Lindon, UT</i>	President/CEO <i>Magleby Construction</i>
Jane-Ann Craig <i>Salt Lake City, UT</i>	Business Consultant & Motivational Speaker <i>Jane Ann Craig International</i>



### Transactions and Agreements with Affiliates

The following agreements were in place as of the date of this examination report:

#### URS Administrative Services Agreement

The Company entered into an Administrative Services Agreement with URS, effective January 1, 2018. Under this agreement, URS will provide general administrative services including but not limited to:

- Accounting
- Loss control
- Issuance of policies; and
- Underwriting

For these services, the Company pays URS commissions of 23% of the premiums collected and earned. URS then pays all business expenses and costs, including rent and other shared expenses.

#### Ronald Nielsen Employment Agreement

The Company entered into an Employment Agreement with Ronald Nielsen to engage and direct his services as President and/or Chairman of the Board. Compensation is comprised of a base salary and a bonus dependent upon the performance of the Company. The Compensation Committee determines the goals for the following year and amends the agreement accordingly.

#### RJN Agency Agreement

RJN, owned by Ronald and Jill Nielsen, acts as a broker to simplify the submission process for policies placed on fronted paper with its reinsurance partner, Dakota Truck Underwriters. Business submitted through RJN receives a standard 9% commission: 7% is paid to the agent/agency who submitted the business, and 2% is kept by RJN for administrative expenses. RJN does not currently place business on behalf of retail agents writing on the Company's paper.

### **TERRITORY AND PLAN OF OPERATIONS**

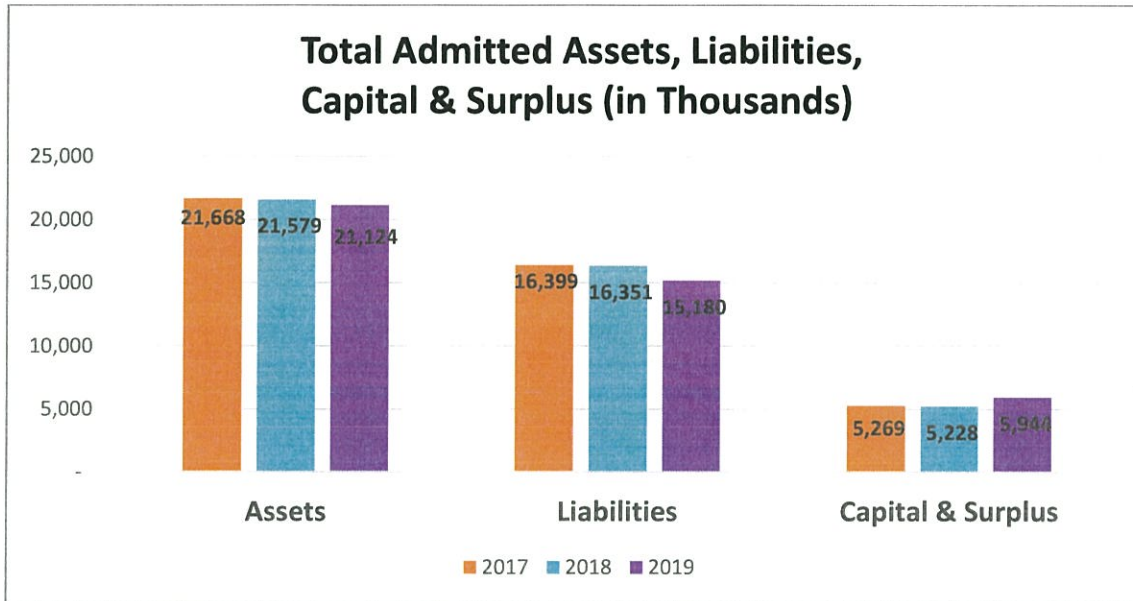
The Company's sole line of business is workers compensation, which it sells through independent agencies. The Company uses the wholesale distribution model where it provides a unique distribution advantage and/or allows a wholesaler to aggregate a book of business from smaller agencies that cannot commit significant premium volume. The Company is currently licensed to write business in Utah, Nevada, and Missouri.



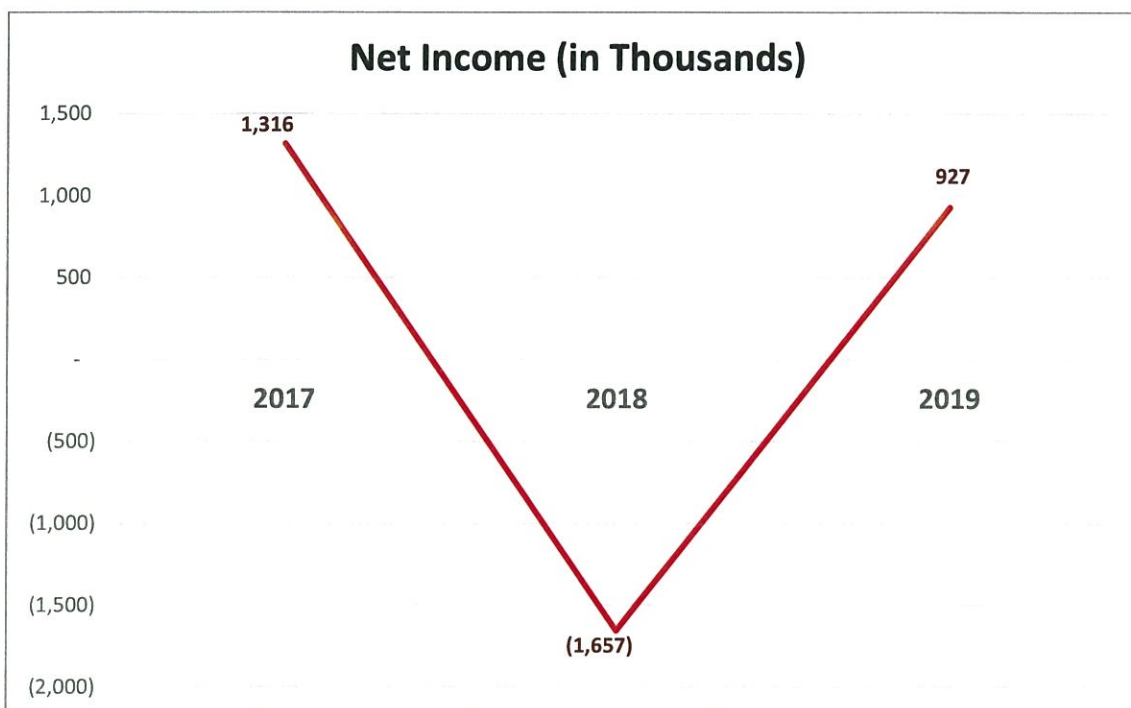
## GROWTH OF COMPANY

During the examination period, the Company experienced steady growth as evidenced by year-over-year increases in assets and liabilities. Capital and surplus had been declining since 2014, then rebounded in 2017, decreased slightly in 2018, and increased again in 2019.

The following graphs illustrate the growth of the Company during the examination period:



Sources: 2017 – 2019 Annual Statements



Sources: 2017 – 2019 Annual Statements

## REINSURANCE

### Assumed

As part of a fronting agreement with Dakota Truck Underwriters and First Dakota Indemnity Company (collectively, Dakota), the Company assumes 100% of the business written by Dakota on its behalf. This arrangement allows the Company to write A-rated paper and to write coverage outside of Utah, Nevada, and Missouri, for employers that need multi-state coverage. The contract with Dakota was effective on August 1, 2019. The Company had previously contracted with AmTrust for its fronting agreement (2017-2019).

### Ceded

The Company's ceding reinsurance arrangement with General Reinsurance (GenRe) became effective January 1, 2020. The Company was previously contracted with AmTrust (2017-2018) and JLT Re (2018-2019). With the new GenRe agreement, the Company increased its ceding reinsurance retention limit from \$750K to \$1M.

Additionally, the GenRe reinsurance agreement grants the Company unlimited reinstatements, which they did not have in prior arrangements. See the following schedule for coverage detail:

#### SCHEDULE OF REINSURANCE

Class of Business	Company Retention	Limits of Liability of the Reinsurer
Workers' Compensation and Employers' Liability Business	\$1,000,000	First Excess Cover: \$4,000,000 Second Excess Cover: \$5,000,000 Third Excess Cover: \$10,000,000

GenRe is rated A++ (Superior) with AM Best and has strong financial strength, with \$13B in capital & surplus.

#### FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2019. The accompanying COMMENTS ON FINANCIAL STATEMENTS (if any) reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

UTAH BUSINESS INSURANCE COMPANY, INC.  
BALANCE SHEET

as of December 31, 2019

ASSETS

	<u>Net Admitted Assets</u>
Bonds	\$10,443,182
Common stocks	1,354,835
Cash, cash equivalents and short-term investments	5,446,355
Investment income due and accrued	74,585
Uncollected premiums and agents' balances in the course of collection	791,825
Funds held by or deposited with reinsured companies	325,713
Other amounts receivable related to uninsured plans	2,333,557
Net deferred tax asset	192,526
Receivables from parent, subsidiaries and affiliates	3,676
Aggregate write-ins for other-than-invested assets	<u>157,873</u>
Total Assets	<u>\$21,124,127</u>

UTAH BUSINESS INSURANCE COMPANY, INC.  
BALANCE SHEET (Continued)

as of December 31, 2019

LIABILITIES, SURPLUS, AND OTHER FUNDS

	<u>Current Year</u>
Losses	\$ 11,134,117
Loss adjustment expenses	1,134,127
Commissions payable, contingent commissions and other similar charges	201,155
Other expenses (excluding taxes, licenses and fees)	23,822
Taxes, licenses and fees (excluding federal and foreign income taxes)	437,460
Current federal and foreign income taxes	339,307
Advance premium	873,027
Dividends declared and unpaid (Stockholders)	708
Amounts withheld or retained by company for account of others	<u>1,036,407</u>
Total Liabilities	15,180,130
 Common capital stock	 910,194
Preferred capital stock	141,075
Surplus notes	1,500,000
Gross paid in and contributed surplus	2,716,687
Unassigned funds (surplus)	<u>676,041</u>
Total Capital & Surplus	<u>5,943,997</u>
Total Liabilities, Surplus and Other Funds	<u>\$21,124,127</u>

UTAH BUSINESS INSURANCE COMPANY, INC.  
STATEMENT OF INCOME

for the Year-Ended December 31, 2019

	<u>Current Year</u>
Premiums earned	<u>\$15,994,669</u>
Losses incurred	6,806,979
Loss adjustment expenses incurred	1,990,784
Other underwriting expenses incurred	<u>6,074,798</u>
Net underwriting gain (loss)	1,122,108
 Net investment income earned	 715,765
Net realized capital gains (losses)	<u>(15,585)</u>
Net investment gain (loss)	700,180
 Net gain (loss) from agents' or premium balances charged off	 <u>(206,227)</u>
Total other income	(206,227)
 Net income after dividends, after capital gains tax and before all other federal and foreign income taxes	 1,616,061
Federal and foreign income taxes incurred	<u>299,995</u>
Net income	<u>\$ 1,316,066</u>

UTAH BUSINESS INSURANCE COMPANY, INC.  
RECONCILIATION OF CAPITAL AND SURPLUS

2017 through 2019

	2017	2018	2019
Capital and surplus, December 31, prior year	<u>\$4,699,542</u>	<u>\$5,268,728</u>	<u>\$5,227,774</u>
Net income	927,210	(1,656,935)	1,316,066
Change in net unrealized capital gains (losses)	61,893	(113,805)	(95,337)
Change in net deferred income tax	88,309	(231,094)	129,526
Change in nonadmitted assets	(403,526)	391,266	92,586
Capital changes – Transferred from surplus (Stock Dividend)	-	726,618	(726,618)
Aggregate write-ins for gains and losses in surplus	<u>(104,700)</u>	<u>842,996</u>	<u>-</u>
Net change in capital and surplus for the year	569,186	(40,954)	716,223
Capital and surplus, December 31, current year	<u><u>\$5,268,728</u></u>	<u><u>\$5,227,774</u></u>	<u><u>\$5,943,997</u></u>

## **ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS**

No adjustments were made to surplus as of December 31, 2019 as a result of the examination.

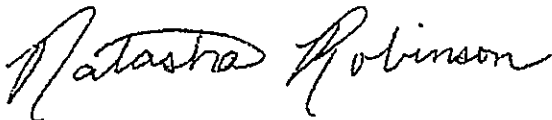
## **SUBSEQUENT EVENTS**

No material subsequent events were identified during the examination fieldwork.

## **ACKNOWLEDGEMENT**

David Heppen, FCAS, MAAA, Senior Consulting Actuary, and Andrew Chandler, ACAS, MAAA, Consulting Actuary, of Risk & Regulatory Consulting, LLC, performed the actuarial review of the examination. Joseph W. Detrick, CFE, CPA, CISA, AES, of Jennan Enterprises, LLC, performed the information systems review. Malis Rasmussen, MSA, CFE, SPIR, Chief Financial Examiner, supervised the examination. Cambria Shore, MSA, Financial Examiner, and Alan Monsen, Financial Examiner, of the Utah Insurance Department, participated in the examination. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers and representatives of the Company.

Respectfully submitted,

A handwritten signature in black ink that reads "Natasha Robinson". The signature is written in a cursive, flowing style.

Natasha Robinson, CFE, PIR  
Examiner-in-Charge  
Utah Insurance Department